

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
Docket No. 1997-239-C

RE 1
EXHIBIT
#1 AIE
(100001)
3-7-05
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SC PUBLIC SERVICE
COMMISSION

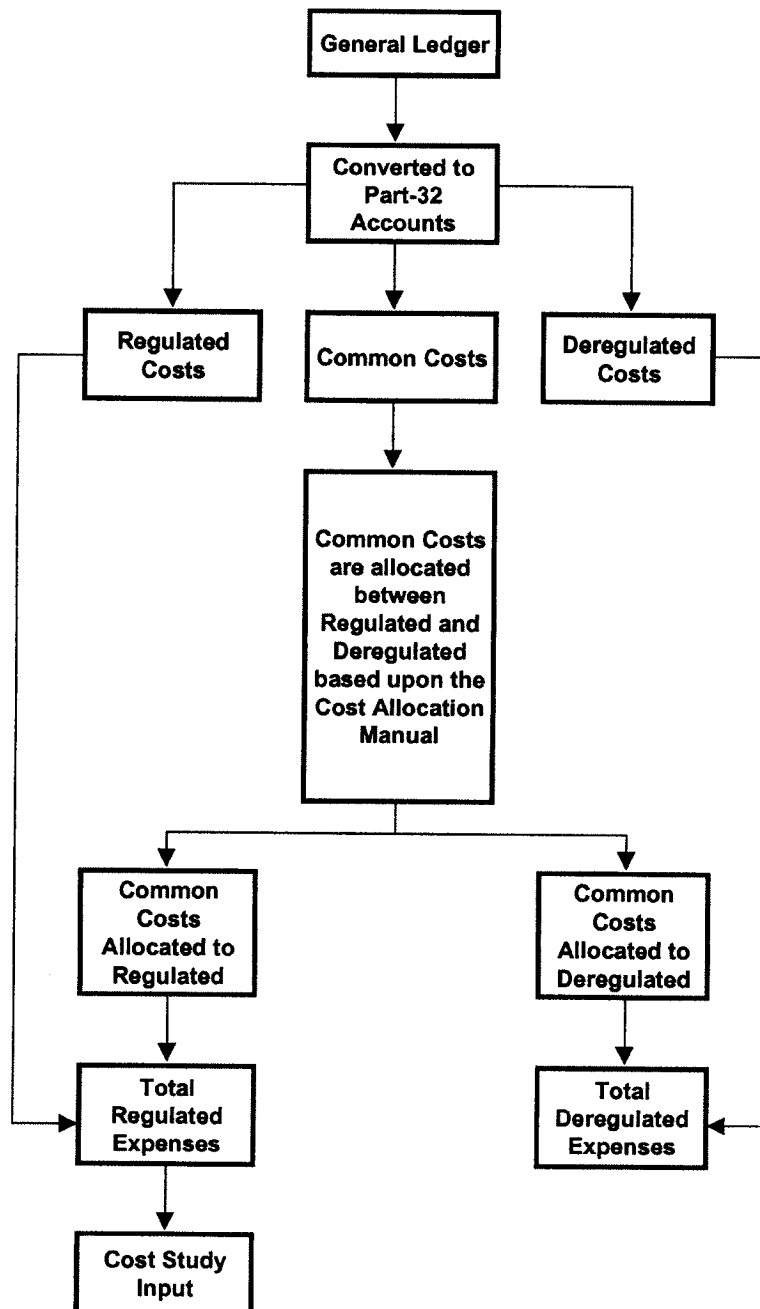
HEARING EXHIBIT NUMBER 1

At the hearing held May 5, 2004, before the South Carolina Public Service Commission ("Commission") in Docket No. 1997-239-C, the Commission directed ALLTEL South Carolina, Inc. ("ALLTEL") to submit a late-filed exhibit. The Commission requested ALLTEL to demonstrate that the implicit subsidies in ALLTEL's regulated special access services are not providing support to non-regulated services.

Utilizing the flowchart below ALLTEL hereby demonstrates that regulated services do not subsidize non-regulated services because:

- (1) The Part 64 Cost Allocation Manual is applied to the total company costs in each Part 32 Account, that is subject to the rate making process, to remove all discernible non-regulated costs.
- (2) Shared facility costs, common facilities used to provide regulated and non-regulated services, are allocated between regulated and non-regulated costs based on the Part 64 Cost Allocation Manual. The format and the content of the Part 64 Cost Allocation Manual is specified by the Federal Communications Commission and audited by NECA.

Process for the Allocation of Expenses



As demonstrated above, ALLTEL is required to record all expenses, investments and revenues in accordance with the Part 32 Uniform System of Accounts (USOA)¹. Upon designating all expenses, investments and revenues to a Part 32 account, ALLTEL separates the discernible costs associated with regulated services from the costs associated with non-regulated services. Section 64.901 of Title 47 of the Code of Federal Regulations describes the cost allocation process. In accordance with that process, all costs that can be directly attributed to regulated or non-regulated activities are immediately separated. By separating discernible non-regulated costs from regulated costs, ALLTEL ensures that non-regulated costs are not utilized in the rate making process for regulated services.

Further, ALLTEL assigns all costs that cannot be directly assigned to either regulated or non-regulated activities into a "Common Costs" category. Common costs are then allocated between regulated and non-regulated categories based on ALLTEL's Cost Allocation Manual. ALLTEL's Cost Allocation Manual is premised on the FCC's Part 64 Cost Allocation Rules and is audited by NECA on a regular basis. According to the FCC's Part 64 Cost Allocation Rules, common costs are to be allocated between regulated and

¹ Part 32 of Title 47 of the Code of Federal Regulations contains rules governing the accounting system of telephone companies.

non-regulated activities in accordance with the following hierarchy:

- (1) Whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves;
- (2) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost causative linkage to another cost category for which a direct assignment or allocation available;
- (3) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities.

By allocating common costs to regulated and non-regulated activities in the manner described above, ALLTEL ensures that common costs are divided in a fair, reasonable and legal manner, and assures that costs from non-regulated activities are not utilized in the the rate making process for regulated services.